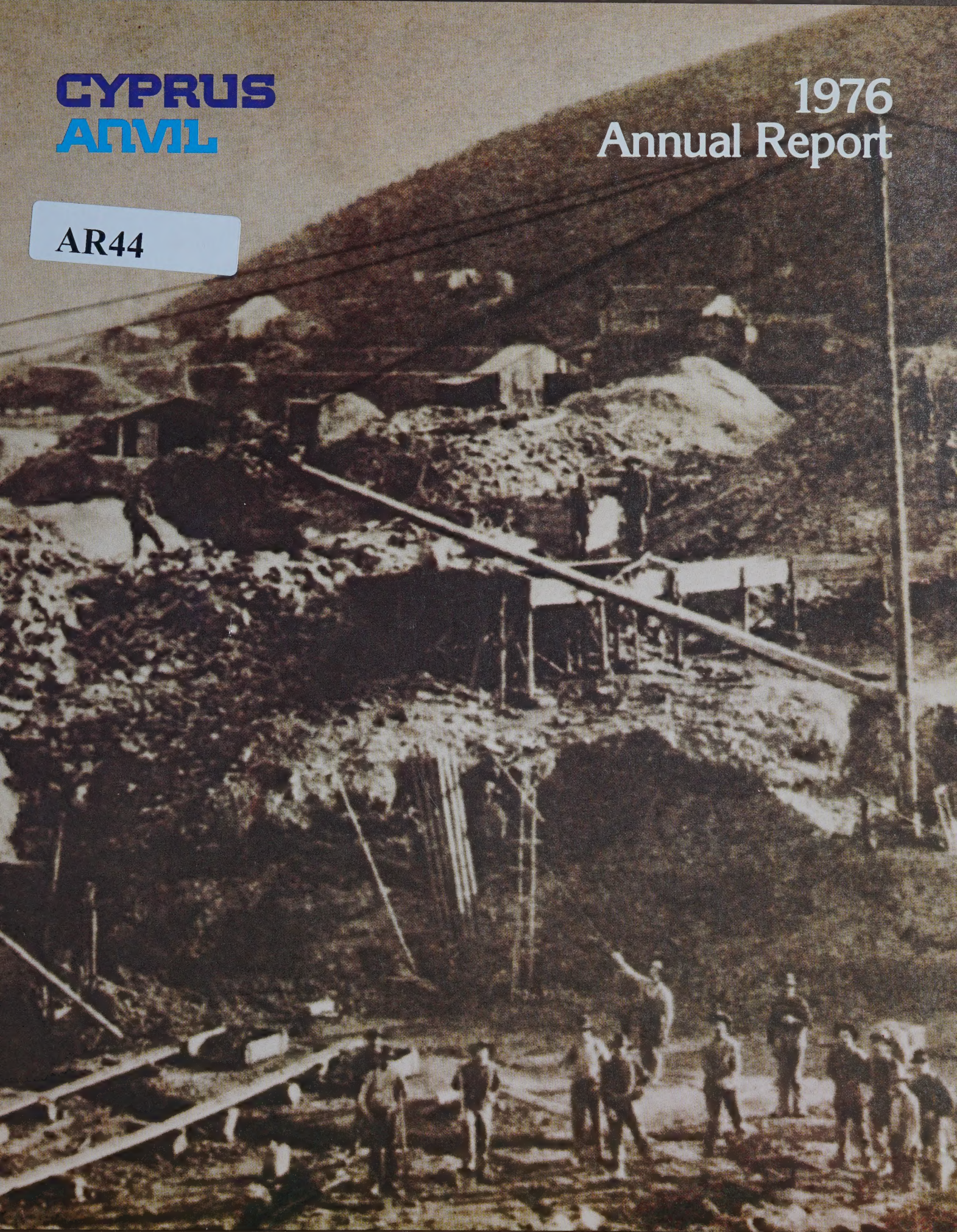


CYPRUS
ANMIL

1976
Annual Report

AR44



An afternoon trip
on the White Pass and Yukon,
in 1898, when passengers
were carried on flatcars



CYPRUS ANVIL

Annual Meeting

The Annual Meeting of the shareholders of the Company will be held on Friday, April 29th, 1977 at 11:00 a.m. in the Board Room, Hotel Vancouver, Vancouver, British Columbia.

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Theme: Yukon; the old and the new

Our cover photograph shows the miners of '98 working the #6 Claim on Eldorado Creek, the richest claim in the Klondike gold fields. Throughout this report, that historic period is pictorially compared with the modern Yukon, represented by the Anvil Mine and the people of Cyprus Anvil.

To Our Shareholders

In 1976 our mining operations were seriously affected by strikes which resulted in a fifty per cent reduction of scheduled production time in the mine and mill. Consequently, the Company suffered a net loss of \$1,268,000 or 17 cents per share compared with net earnings of \$20,575,000 or \$2.70 per share in 1975.

Concentrates sold in 1976 had a payable metal content of 65,963,000 pounds of lead; 103,943,000 pounds of zinc; and, 464,000 ounces of silver in contrast to 264,943,000 pounds of lead; 254,834,000 pounds of zinc; and 3,335,000 ounces of silver in 1975. Average prices for the year were: lead — 20.4¢ per pound; zinc — 35.6¢ per pound; and, silver — \$4.25 per ounce, compared to 19.2¢, 37.5¢ and \$4.49, respectively in 1975. Gold contained in concentrates sold in 1976 realized \$237,000 in 1976 compared to \$803,000 in 1975.

The strong financial position allowed the Company to maintain the 15¢ per share dividend in each quarter. The Company ended the year with \$12,268,000 in working capital.

During the year the directors approved a \$14.8 million expenditure for new mine equipment, warehousing and repair facilities at Faro. Though the long strike set construction schedules back, construction will be completed in 1977 and the arrival of the new equipment is expected early in the second quarter of the year.

Labour

During the extended strikes which occurred at our mine operation in 1976, our employees lost gross wages and benefits amounting to approximately five million dollars.

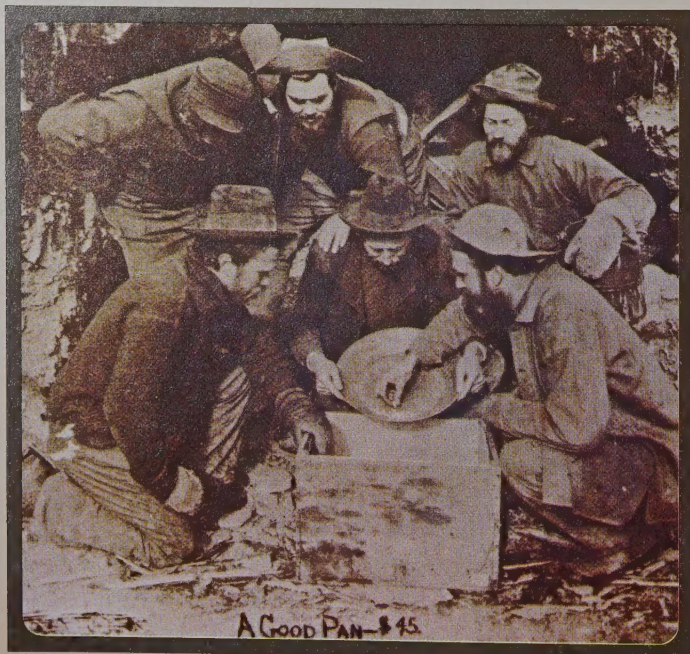
Relations with our labour force in Faro though improving, need much attention and continue to be our most difficult problem. The three year collective agreements signed with the Union Locals expire September 30, 1978. The contracts include an undertaking that workers will not engage in any strikes, work stoppages or slowdowns and will instead submit all unresolved contractual disputes to arbitration.

We appreciate the substantial contribution of the International Steelworkers Union during the long negotiations for the resumption of work.

In addition to the loss of 169 days of scheduled operating time, many skilled tradesmen left Faro during the strike to seek employment elsewhere. We have felt this loss through the first months of 1977, but it is beginning to be resolved. Though many employees left, the majority stayed, thereby proving their strong commitment to the town of Faro. Our wish that Faro be more than a stopover point for transient workers is gradually being realized. We are happy that a potentially divisive situation was resolved without lingering animosity.

We are determined to have our employees and the Union Locals recognize that the interests of all are best served, not by confrontation, but through

The President reviews exploration program with staff



Klondike. A rich forty-five dollar pan

understanding and cooperation. Only a strong company can satisfy the aspirations and needs of its employees.

Plans for Growth

The 1976 exploration program was successful and resulted in a number of discoveries. The most important of these was a new lead-zinc sulphide zone on the DY claim group 12 miles southeast of Anvil Mine.

Further testing of the encouraging showings in the DY claims will be the first priority in the allocation of the \$2.6 million exploration budget. This is consistent with our goal of extending the use of the mill, concentrator and townsite at Faro.

In the two years since amalgamation, we have identified opportunities for our Company and, as we had foreseen, these lie in further lead-zinc prospects in Yukon, attracting joint venture partners for exploration in Western Canada, and continuing our acquisition of both thermal and metallurgic coal properties.

Joint venture programs with Hudson's Bay Oil and Gas in the Pelly Mountains and east-central Yukon have resulted in the acquisition of more claim groups which will be explored in detail in the coming season. We are also planning, with Hudson's Bay Oil and Gas, further drilling on the MM lead-zinc prospect south of Ross River.

Diamond drilling the Carmacks coal district is intended to increase reserves required for plant heating and concentrate drying at the Anvil Mine. We also hope to be able to respond to potentially larger markets within the Yukon and are considering the long-range possibilities of an export market, if sufficient reserves are indicated.

We will also be carrying out a program of drill testing and analysis at the thermal coal property near Princeton, B.C. recently acquired through an option agreement with Imperial Metals and Power, Ltd. for a 100 per cent interest.

In mid-1976, the Alberta Government announced a policy for coal development which has increased the cost of exploration in order to meet environmental standards. Though our application for our exploration permit for the Torrens coal leases was not approved as submitted to the Alberta Government, we continue to view our interest in this property as a valuable long-term asset.

Outlook for 1977

The political situation in Canada continues to be uncertain, especially since the election of the separatist government in Quebec. However, fundamental though the question of Quebec is for the continuity of Canada as a united nation, it has little impact on our areas of activity. Western Canada continues to be one of the best areas in which to search for minerals and develop new mines. It has fulfilled the expectation we had at the time the Company was organized when we decided to concentrate our efforts in this part of the country.

As the concept of increased regional strength

evolves in Canada, there will be an increasing reliance on the indigenous industries of each region. Mining is one of the strongest industries in Western Canada, and proof that the governments are beginning to appreciate the value of the mineral industry is the attempt of the B.C. Government, in cooperation with the Federal Government, to stimulate development of the coal deposits in the northeastern section of the Province, which adjoins our Torrens project.

Sales agreements with our Japanese and German customers will be renegotiated this year. We anticipate successful negotiations culminating in new long-term contracts. There is currently a strong demand for lead; the price per pound gained strength in the last quarter of 1976 and the first quarter of 1977 and is expected to remain strong throughout the year. In the long term we anticipate a stronger demand for both lead and zinc. During the strike the withdrawal of our concentrates from world markets was strongly felt and caused some reduction in the oversupply of zinc, which had an advantageous effect.

Good prospects in the Yukon and on our other properties point to another successful exploration season this year. In this year we hope to identify one or more projects for development, being hopeful of the results of our exploration and acquisition programs.

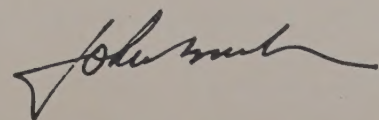
Our Company has come through an arduous period marked by labour problems and by a worldwide recession which affected the whole of the mining industry. However, our strong financial position, an eased labour situation and a projected upswing in the economy give us cause for optimism, and we look forward to an active and prosperous year.

Acknowledgements

In 1976, the Board of Directors was increased from eight to ten members and two new directors were appointed, Mr. Morris Belkin, Chairman and President of Belkin Packaging Ltd. and Mr. Donovan F. Miller, Chairman and Chief Executive Officer of The Canadian Fishing Company Limited.

Also, Mr. Theodore S. Andrew was appointed Comptroller, and Mr. Thomas H. Biggs, Assistant Treasurer of the Company.

We appreciate the support of our shareholders and employees in the development of our Company. We shall continue to meet our responsibilities to our shareholders, our employees, and to the communities within which we operate by accepting our role as part of the Canadian mining industry to ensure the prosperity of the country as a whole.



John Bruk President

During 1976, the seventh year of operation for Cyprus Anvil's lead/zinc/silver mine near Faro, Yukon Territory, operations were severely hampered by strikes and a shutdown due to tailings pond effluent problems. As a result, there was a total of 181 days of unscheduled shutdowns of the concentrator, or about 50% of the scheduled operating time.

For the periods that operations were in effect, mine production totalled 3,707,030 cubic yards of which 3,147,087 cubic yards was waste stripping. A total of 1,675,381 tons of ore was milled during the year. The grade of mill feed was 2.66% lead and 5.48% zinc, for a total combined feed grade of 8.14%. Concentrates produced during the year were: Lead 47,863 dry short tons, zinc 126,620 dry short tons and bulk concentrate 27,141 dry short tons.

All operations were scheduled on a seven day per week, 24 hour per day basis.

At the start of the year, negotiations for new collective bargaining agreements with the Union Locals, which commenced in August of 1975, were continuing. The previous agreements had expired at the end of September 1975, and the conciliation process had been exhausted by the year end so that the Union was in a position for a legal strike. On February 1, 1976, the Production Group caused a work stoppage which lasted until February 12th, when a new agreement was ratified. Upon startup of the concentrator after this work stoppage, a quantity of cyanide reagent was accidentally discharged into the tailings pond, which caused the cyanide level in the effluent to exceed the limits set forth in our water licence. The mill was shut down on February 24th in order to correct the situation, and resumed operations on March 5th. Labour negotiations with the Office and Technical Group continued, and on March 28th, a strike was called by that Union Local, and operations were again shut down. This work stoppage continued until May 2nd, when a new agreement was ratified. The Agreements with both Union Locals were submitted to the Anti-Inflation Board, and the Board in its decision, recommended substantial reductions in the compensation negotiated in these Agreements. As a result of this decision, a walkout was staged by all bargaining unit employees on July 30th in protest against the AIB. This strike, which was subsequently declared legal by the Canada Labour Relations Board, continued until agreements with the Union Locals were reached on November 13th. Operations resumed on a limited basis in the mine on November 23rd, and in the mill on December 2nd. At year end, operations were approaching normal.

The intermittent nature of the operation this year caused generally less than satisfactory performance during the operating periods. Average daily mill throughput was somewhat less than designed rates. During the one period of the year when operations were uninterrupted for almost three months, the designed mill tonnage rate of 10,000 TPD was achieved.

Operations



Metallurgical recoveries were slightly lower than last year, again reflecting the problems of intermittent operation.

Escalation of costs due to increased costs of operating supplies continued during 1976. Power rates were increased, and equipment repair parts prices were raised substantially. Every effort is being made by the operating staff to offset these uncontrollable increases by economics in the operation.

Ore reserves at the end of 1976 were estimated to be 44.7 million tons with an average grade of 8.6% combined lead and zinc with approximately one ounce of silver per ton. Based on information obtained from drilling and operations, since the inception of the mine, a re-evaluation and updating of the ore reserve situation is in progress. No material change is anticipated.

During the year, authorization was obtained for a major capital expenditure of new and larger mining equipment and the related repair and warehousing facilities. This equipment is required because of higher stripping ratios in the years ahead due to the increasing depth of the orebody. The total expenditure for this equipment and facilities is estimated at \$14,814,000. Orders were placed for two 15 cubic yard power shovels for delivery in the early part of 1977 and fourteen 120 ton haulage trucks, six of which were delivered in late 1976, and the remaining in the first part of 1977. This equipment will complement the present 15 cubic yard shovel and 120 ton haulage units presently in use. All waste stripping will be done with the larger shovels, and the existing 5 cubic yard shovels will be used only for ore and some internal waste in the orebody. The present fleet of 65 ton haulage units, which were in service since the start of operations, will be retired. Construction work on the expanded shop and warehouse facilities commenced during the summer of 1976 but was interrupted by the strike which commenced on July 30th. Completion of this construction work is now planned for 1977.

With the extremely difficult operating year of 1976 behind, the management and operating staff look forward to an efficient and economical operation in 1977, with the achievement of the planned operating goals.

Mineral Exploration and New Projects

Encouraging results on base metal programs and a broader range of projects, particularly in coal exploration and acquisition, have highlighted our Company's activities this past year.

A new sulphide zone containing significant lead and zinc mineralization was discovered by deep diamond drilling on the DY claim group 12 miles southeast of the Anvil Mine. This intersection resulted from geological projection of host rocks that contain the nearby Grum and Vangorda deposits controlled by Kerr Addison Mines. Although the mineralization was



*King Solomon's Hill, 1898,
reputed mother lode of
the Klondike gold field.*

encountered at a depth of approximately 2000 feet, and is of subeconomic grade, it is typical of mineralization on margins of significant deposits within the district and represents a first rate target for an extensive follow-up program planned for early 1977. We are greatly encouraged by our improving ability to project ore horizon rocks as a guide to continuing drill exploration in the district.

Drilling in the vicinity of the Faro ore bodies in 1976 was concentrated on the northern margins of the deposits to clarify ore potential in the immediate vicinity of the open pit and to provide definitive data to serve as a basis for extending the drilling program in search of new deposits. While no significant additions to ore reserves were made, a clearer geological understanding of the ore horizon was obtained that will assist drilling along strike from the Faro deposits that is planned for 1977. Further exploration is also planned in the Swim Lakes area where additional claims have been acquired.

Detailed geophysical surveys on claim blocks both north and northwest of the Central Anvil District were carried out under joint venture agreements with Metallgesellschaft Canada Limited and Preussag Canada Limited respectively. Further exploration, including diamond drilling, is planned.

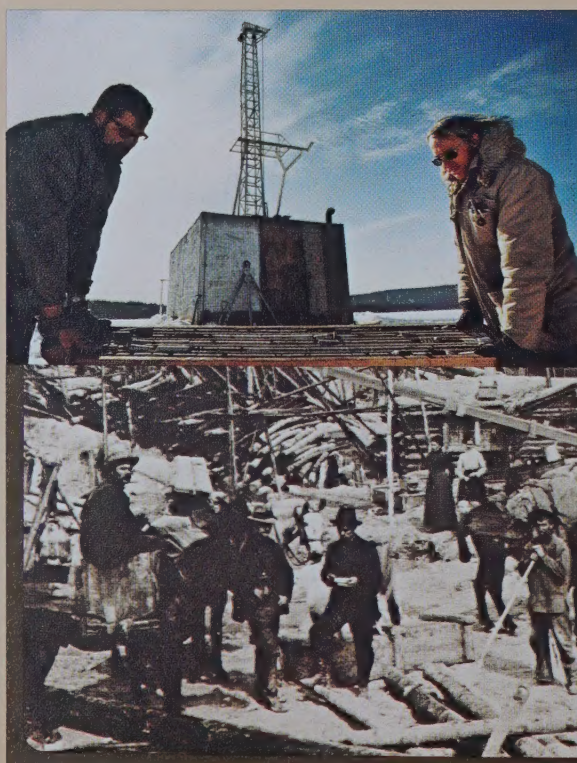
Extensive regional joint venture exploration was undertaken this past year with Hudson's Bay Oil & Gas Company Limited in search for lead-zinc deposits in the east-central Yukon and in the Pelly Mountains south of Ross River. A number of new claim groups were acquired and these will be further explored this coming season. In addition to the regional programs, the MM lead-zinc prospect was drilled and results were sufficiently encouraging to plan further drilling in 1977.

Exploration on the Torrens metallurgical coal project in northwestern Alberta has been frustrated by a combination of difficult land use zoning and administrative requirements of the Alberta Government. Despite these difficulties, we continue to regard the leases as a valuable long-term asset. Our Company is encouraged by the increased activity and favourable results on nearby lease areas on the British Columbia side of the border. We are hopeful that we can ultimately take advantage of infrastructure additions in the general region in the development of the Torrens project.

We have completed the first phase of a systematic exploration program to evaluate coal reserves and potential at Carmacks, Yukon. The objectives of the program are to define reserves for our continuing use for plant heating and concentrate drying and to evaluate the potential to service expanded markets within the Yukon and, as a long-term objective, potential export markets. Results of this past year's exploration have added significantly to the achievement of these objectives and a continuing program is planned.

Exploration licenses covering extensive lignite coal deposits have been acquired in the Peel River area of the northern Yukon. These deposits could at some future date provide a significant large-scale alternative to hydro electric development.

Our Company has recently optioned from Imperial Metals & Power Limited coal licenses near Princeton, B.C. that cover thermal coal deposits well located with respect to rail and other infrastructure. A drilling and bulk sampling program will be carried out this coming summer to evaluate the mining feasibility and quality characteristics of the deposits.



Pack train on Cheechako Hill near Bonanza Creek



The Community of Faro

The community of Faro was put to the test in 1976 by extended work stoppages that challenged the commitment of Faro people to the town. With winter approaching and no end to the long strike in sight, many workers and their families left, but more stayed. Consequently, Faro is now a stronger, more mature community, made up of those who feel Faro is home.

Proof of the residents' concern for the well being of the town are the many community associations which continue to be initiated and maintained by the people of Faro. The Faro newspaper, *The Raven*, after a history of intermittent operation, began publishing on a regular bi-weekly basis last year. A Hospital Auxiliary, a Humane Society, a Consumers Association and a Woman's Resource Centre were formed, and the Faro Board of Health obtained funding to implement a study which will soon result in improved medical, dental and hospital services for the area.

The Town Development Committee is preparing plans for the organized growth and development of the young town, the second largest in the Yukon.

We sponsored the second annual Farrago Folk Fest, an event which attracted entertainers from all over Canada and which has been called a unique event of its kind in the country.

Our Company also contributed significantly to the

construction of the new \$750,000 Faro Ice Arena, funded jointly by Cyprus Anvil and a grant from the Territorial Government, which was officially opened in January, 1977. The opening ceremonies featured the Shane Sizer Memorial Hockey Tournament co-sponsored by our Company and the Faro Senior Hockey Association. The tournament drew teams and spectators from every corner of the Territory who watched the Faro team defeat Whitehorse, thereby winning back the Sizer trophy for Faro.

The Cyprus Anvil Duffers Open, the oldest snow golf tournament in Canada, was held as part of an expanded Ice Worm Squirm winter carnival and was filmed for broadcast on national television.

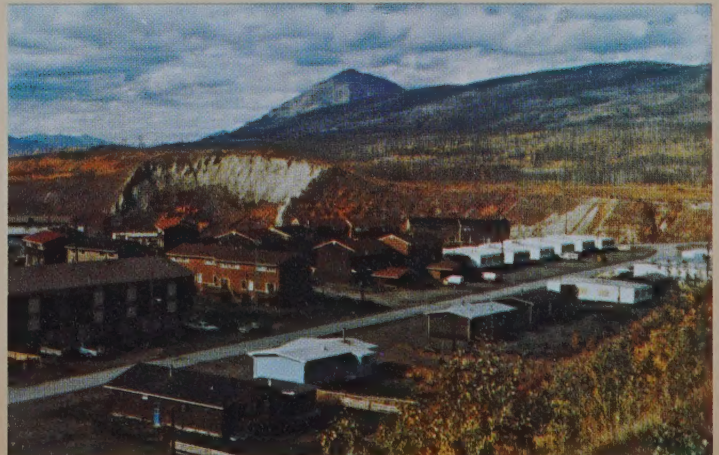
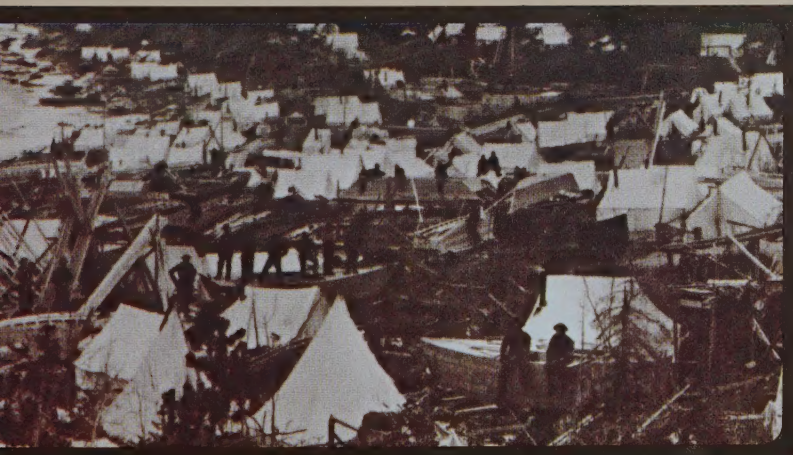
Housing was improved during 1976 when a 45 unit mobile home park and new single persons quarters were completed. The overall appearance of the town was enhanced through a program under our Company's student employment plan, in which students were hired to build fences, plant trees and shrubs and carry out other tasks designed for them by the Housing Maintenance Department.

Though 1976 was a difficult year for our Company and our employees, Faro emerged as a healthier, more stable community, well prepared to meet the future.

7



Boat and raft building on Lake Bennett 1898





Mayo, 1915. First shipment of silver/lead ore out of Keno Hill district.



Sternwheel steamer "Klondike" on Yukon River



Financial and Marketing

Although the net loss of \$1,268,000 reported for 1976 is disappointing, it has not significantly weakened the strong financial position of our Company. The major capital expenditure and exploration programs, as well as the dividend program, were continued and we finished the year with working capital of \$12,718,000. As a result of the strike, the capital expenditure program replacing the fleet of mining equipment was not completed during 1976 and is expected to be completed during the first half of 1977. Arrangements have been made with the Toronto-Dominion Bank, as lead banker, for an equipment loan of \$10,000,000 to finance the completion of this program. The first drawdown of this loan was made in January 1977. Because of the loss we have been able to effect a recovery of some of the income taxes paid in previous years. This recovery is in excess of \$3,000,000 and was received in early 1977.

In 1976 we have adopted certain changes in methods of applying accounting principles, including use of the full absorption cost method for inventory cost determination. These changes are considered to be better methods of accounting for depreciation and inventory valuation, and reflect, in general a conservative accounting policy.

1976 was a difficult year for the zinc industry. The lower levels of economic activity, first experienced in 1975, continued throughout 1976. This lacklustre zinc market resulted in downward pressures on prices, although the zinc prices received by our Company did not decline, and because of continuing increases in costs, profit margins were reduced. The demand for lead strengthened during the year and remains very strong. The lead price moved from 15½ cents in January 1976 to about 21 cents in December 1976 and has continued upward in 1977. Our results were further adversely affected by the strength of the Canadian dollar during most of 1976, but the weakening that occurred in late



1976, with a consequent improvement of results, is expected to continue on into 1977.

Possibly the only benefit from the labour related shutdowns of our operations was the fact that a significant amount of zinc metal was taken out of world markets, which helped to relieve the oversupply situation.

During 1976 concentrate production was shipped to smelters located in Japan, Germany, England, France, United States and Canada. Most of these shipments were made under long-term sales agreements with Mitsui Mining & Smelting Co., Ltd., Toho Zinc Co., Ltd., both of Japan, and Metallgesellschaft A.G. of Germany. Preliminary discussions have been held with our buyers regarding extensions of the long term sales contracts which expire around the end of 1977. It has been agreed in principle that the contracts shall be extended and that final details will be determined during the first half of 1977.

Five Year Review

Financial

	1976	1975	1974	1973	1972
Total Revenues (\$000s)	56,666	157,877	128,463	112,908	74,078
Net Income (Loss) (\$000s)	(1,268)	20,575	25,886	20,252	11,422
Per Share (\$)	(0.17)	2.70	3.40	2.66	1.50
Shareholders Equity (\$000s)	78,286	84,123	68,117	42,379	22,161
Per Share (\$)	10.28	11.05	8.94	5.57	2.91
Working Capital (Deficit) (\$000s)	12,718	22,231	8,046	(2,259)	277

Production

Ore Milled — Dry Short Tons (000s)	1,675	3,225	2,925	2,899	2,906
Average Grade of Ore Milled % Combined Lead and Zinc	8.14	9.44	10.11	11.25	10.85
Concentrates Produced					
Lead — Dry Short Tons	47,863	145,453	148,517	156,732	142,081
Zinc — Dry Short Tons	126,628	230,494	207,437	233,049	213,344
Mixed Lead and Zinc — Dry Short Tons	27,141	77,113	72,294	79,197	88,007

Marketing

Payable Metal Sold					
Pounds of Lead (000s)	65,963	264,943	192,743	186,973	207,134
Pounds of Zinc (000s)	103,750	254,834	174,034	239,728	229,365
Ounces of Silver (000s)	464	3,335	2,451	2,160	2,403
Average Prices During Year					
Per Pound of Lead	20.4¢	19.2¢	26.2¢	19.5¢	13.6¢
Per Pound of Zinc	35.6¢	37.5¢	34.5¢	23.9¢	17.5¢
Per Ounce of Silver	\$4.25	\$4.49	\$4.58	\$2.55	\$1.65

Salute to the Discovery of the Yukon

Before the discovery of gold in the Yukon in the late 1800's, the Territory was a little known area peopled by migrant bands of Indians, the remnants of the Asian migration to North America.

In 1840, Robert Campbell ventured into the Territory from the east and established several trading posts for the Hudson's Bay Company. He was followed by other traders, by missionaries and eventually by prospectors. But it wasn't until 1885 that discovery of the gold mines at Juneau, Alaska and rumours of gold in the Yukon prompted a party of aroused prospectors and frontiersmen to force entry over the Chilkoot Pass, a traditional trade route jealously guarded by the Chilkat Indians.

By 1885 about 100 men had stampeded to discoveries of fine gold on the Stewart River. Then, in increasing numbers, they flocked to the coarse gold deposits on the Fortymile River and Birch Creek in Alaska. News of gold on the Klondike, discovered on Rabbit Creek by Skookum Jim, Tagish Charley and George Washington Carmack on the 17th day of August, 1896, lured miners from Fortymile and the other Alaskan prospects and by 1897 all the creeks along the Klondike were staked solidly.

Two 'picture book' boatloads of Klondike miners loaded down with Yukon gold landed in Seattle and San Francisco in 1897 and the gold rush of '98 was on. Of course, by the time the later stampeders made it to the Klondike, all the creeks were claimed and they had to settle for bench gravels.

By 1901, the magnificent White Pass and Yukon Route railway stretched from Skagway on the Alaska coast to Whitehorse, the head of Yukon river navigation. Twenty sternwheelers plied the river from Whitehorse to Dawson City, carrying gold and supplies for the 30,000 people who made Dawson, at the turn of the century, the largest town west of Winnipeg.

The more capable of the stampeders fanned out through the north to make other discoveries of gold at Atlin, B.C., Nome and Fairbanks in Alaska; silver-lead at Keno Hill in Yukon; silver uranium at Great Bear Lake, and lead-zinc at Pine Point.

A gold stampede to the Mayo area in 1902 resulted in a high grade silver-lead discovery in 1903 which was restaked and mined between 1913 and 1917. This led to other discoveries between 1919 and 1934, which resulted in the establishment of Treadwell Yukon Corporation's mining and milling operation which was later acquired by United Keno Hill Mines, still producing at Elsa, Yukon today.

The first Yukon mining towns were frontier settlements populated by adventurous, hard living miners and frontiersmen and women. Gambling, heavy



Top: Klondike miner. Inset left: Robert Campbell

Inset right: George W. Carmack

Bottom: Chilkoot Pass, gateway to the Klondike, 1898.

drinking and impulsive acts of violence characterized life in the first settlements, but there was a kind of frontier code of law, refined and enforced by the Mounties. In the 1930's a Mayo bank manager noted, "Frontier towns differ from others only because here men do openly in broad daylight what the conventions of older communities require them to do by stealth." The individualistic and hardened miners, prospectors and trappers gave rise to many colourful stories which are the spice of Yukon history.

Construction of the Alaska Highway and the Canol Road during World War II brought the dwindling population of the Territory back to near gold rush levels. Increased metals prices stimulated renewed prospecting and development and by the 1950's the Territory was off on a boom similar to that which prompted its founding. All-weather roads pushed to Mayo and Dawson put an end to the colourful era of river travel in the summer and cat trains and roadhouses in winter and attracted more individuals and organizations interested in searching for minerals. Sophisticated exploration methods, easier travel made possible by helicopters, government assistance and lucrative Japanese markets added to the impetus.

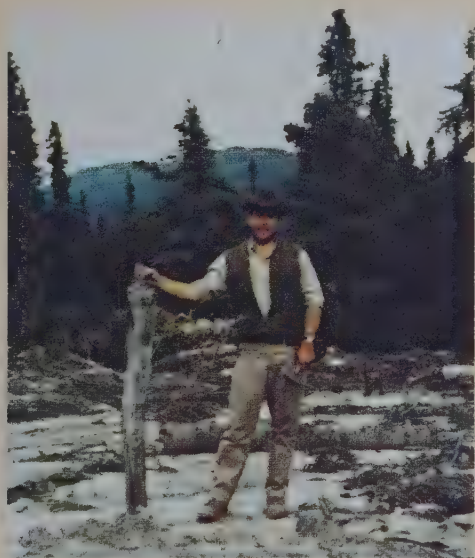
Gold opened up the Territory to the rest of the world and subsequent finds of other minerals helped the Territory grow through the 1900's. But a mining-based Yukon economy was assured by the discovery of the Faro ore body in the mid-1960's. The Anvil silver-lead-zinc mine has proved to be worth several times the gross value of the two previously largest mineral developments, Klondike and Keno Hill, and now accounts for 40 per cent of the Yukon's economy.

The Anvil discovery spurred large regional mineral exploration programs throughout Yukon, resulting in numerous new discoveries. Potential producing mines have been identified at Minto, on the Grum deposit near Faro and at properties near the MacMillan Pass. Encouraging signs of more mineral potential are being investigated each year.

Since the birth of the Yukon in 1898, prospectors have led the way for mining companies to develop mines around which new Yukon towns have been built. The history of the Territory and the history of mining are inexorably linked, and, with a growing population and optimistic signs in the world minerals market, the future of both looks bright.

Upper: R.E. Gordon Davis at Faro #2 Discovery Hole, 1965

Lower: Dr. Aaro E. Aho camps on top of Faro #1 orebody, June, 1965.



Balance Sheet

Cyprus Anvil Mining Corporation Balance Sheet as at December 31, 1976

Assets	1976	1975
	\$	\$
Current Assets	(000's)	(000's)
Cash and short-term deposits	725	3,118
Accounts receivable	452	1,037
Income taxes recoverable	3,907	—
Concentrate settlements receivable	1,191	21,508
Concentrate inventory (note 2)	5,406	1,441
Supplies—at cost	4,819	4,459
Prepaid expenses	442	385
	16,942	31,948
Investments, at cost less amounts written-off	1,787	1,624
Fixed assets (notes 2 and 4)	57,519	53,045
Deferred costs (notes 2 and 5)	28,411	28,026
	104,659	114,643

Auditors' Report to the Shareholders

We have examined the balance sheet of Cyprus Anvil Mining Corporation as at December 31, 1976 and the statements of earnings and retained earnings and source and use of working capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. We previously made a similar examination for the year ended December 31, 1975.

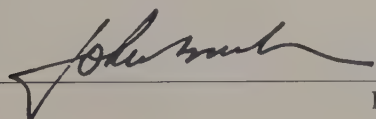
In our opinion these financial statements present fairly the financial position of the company as at December 31, 1976 and the results of its operations and the source and use of its working capital for the year then ended in accordance with generally accepted accounting principles which, except for the changes in methods of determining depreciation, amortization and concentrate inventory costs as referred to in note 2 to the financial statements, have been applied on a basis consistent with that of the preceding year

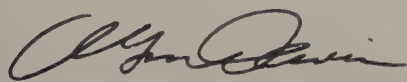
Vancouver, B.C.
January 17, 1977

Croft & Hyland
CHARTERED ACCOUNTANTS

Liabilities	1976	1975
	\$	\$
Current Liabilities	(000's)	(000's)
Accounts payable and accrued liabilities	3,661	5,714
Income taxes payable	—	3,617
Yukon mining royalty payable	—	286
Current portion of long-term debt	108	100
Current portion of deferred income taxes	455	—
	4,224	9,717
Long-term debt		
8½% - 11¾% mortgages secured by townsite buildings, repayable in annual amounts to the year 2000	5,063	5,253
Deferred income taxes (note 7)	17,086	15,5
	26,373	30,520
Shareholders' equity		
Capital stock (note 6)	3,461	3,461
Contributed surplus	4,067	4,067
Retained earnings	70,758	76,595
	78,286	84,123
	104,659	114,643

Signed on behalf of the Board


Director


Director

Statement of Earnings and Retained Earnings

Cyprus Anvil Mining Corporation Statement of Earnings and Retained Earnings for the year ended December 31, 1976

	1976 \$ (000's)	1975 \$ (000's)
Concentrate sales	56,666	157,877
Deduct: Ocean freight, treatment and related charges	26,005	63,819
	30,661	94,058
Operating expenses		
Production, inland transportation and port costs	25,751	45,383
Administration and general	6,931	6,416
Depreciation	2,163	4,095
Amortization	793	2,039
(Increase) decrease in product inventory levels (note 2)	(3,965)	6,038
	31,673	63,971
Operating (loss) income	(1,012)	30,087
Other expenses (income)		
Interest income	(135)	(650)
Interest on long-term debt	446	516
Other interest	12	176
Loss (gain) on disposal of fixed assets	(10)	62
Exploration	182	289
Foreign exchange	439	(367)
	934	26
	(1,946)	30,061
Provision for (recovery of) income taxes and Yukon royalty		
Income taxes (note 7)	(678)	9,200
Yukon royalty	—	286
	(678)	9,486
Net earnings (loss) for the year (note 2)	(1,268)	20,575
Retained earnings—beginning of year	76,595	60,589
	75,327	81,164
Dividends (note 8)	4,569	4,569
Retained earnings—end of year	70,758	76,595
Earnings (loss) per share (note 2)	\$(.17)	\$2.70

Statement of Source and Use of Working Capital

Cyprus Anvil Mining Corporation Statement of Source and Use of Working Capital for the year ended December 31, 1976

	1976 \$ (000's)	1975 \$ (000's)
Source of working capital		
From operations		
Net earnings (loss) for the year	(1,268)	20,575
Items not affecting working capital—		
Depreciation	2,163	4,095
Amortization	793	2,039
Deferred income tax	2,074	940
Deferred waste removal	43	2,691
Deferred exploration and development written-off	182	337
	3,987	30,677
Proceeds on sale of investments	—	179
Reclassification of current income tax to deferred	(538)	495
	3,449	31,351
Use of working capital		
Dividends	4,569	4,569
Long-term debt reduction	190	111
Fixed asset additions	6,637	7,853
Deferred cost additions	1,403	2,242
Investments	163	1,391
	12,962	16,166
Net increase (decrease) in working capital	(9,513)	15,185
Working capital—beginning of year	22,231	7,046
Working capital—end of year	12,718	22,231
Represented by:		
Current assets	16,942	31,948
Current liabilities	4,224	9,717
Working capital—end of year	12,718	22,231

Notes to Financial Statements

for the year ended December 31, 1976

1. Significant Accounting Policies

(a) Concentrate Sales and Settlements Receivable

Concentrate sales and settlements receivable are recorded at the metal prices, weights and assays available at the year end. Final prices, weights and assays are not known on a portion of the sales until some time after the year end, accordingly amounts ultimately received may vary from those recorded.

(b) Concentrate Inventory

Concentrate inventory is valued at the lower of average cost, on an annual FIFO basis, or estimated net realisable value. Average cost for each type of concentrate is determined on the joint product costing basis using relative sales values for proration of costs which, in the current year (see note 2), includes all production costs and appropriate depreciation, amortization and general and administrative costs, being the full absorption method of inventory cost determination.

(c) Depreciation, Amortization and Deferred Waste Removal

Depreciation and amortization are calculated on the basis of the shorter of estimated useful life or, in the current year (see note 2) pounds of metal produced in relation to total estimated marketable pounds of metal available from the ore body.

Removal of waste is charged to production based on a waste-to-ore ratio for the life of the mine. Deferred waste removal costs arise when the waste-to-ore ratio exceeds the estimated average for the life of the mine. When the removal of waste is less than the estimated waste-to-ore ratio for the life of the mine a provision for future removal costs results.

(d) Mineral Exploration

The company's policy with respect to exploration of mining prospects is to defer costs and expenses incurred during the exploration period. Such costs and expenses are charged to income if the prospect is abandoned, or capitalized as cost of investment if the prospect is developed into a commercial property.

(e) Foreign Currency

Current assets and liabilities receivable and payable in foreign currencies, including the current portion of long-term debt, have been converted to Canadian dollars at the year end exchange rate of \$1 Cdn. = \$.99 U.S. (1975 — \$1.01).

Earnings for the year include all realized foreign exchange gains and losses as well as unrealized gains and losses related to current assets and liabilities.

Revenues and expenses in currencies other than Canadian dollars have been translated into Canadian dollars at the rate prevailing on the date the transaction was initiated.

2. Changes in Methods of Applying Accounting Principles

In 1976 the company has:

- (a) Changed its method of depreciating and amortizing those assets formerly depreciated or amortized on the basis of pounds of metal sold to the basis of pounds of metal produced in relation to total estimated marketable pounds of metal available from the ore body.
- (b) Changed its method of determining the cost components of concentrate inventory from the production cost method to the full absorption cost method.

These changes have not been applied retroactively. The change in the method of depreciation and amortization as described in

(a) above has the effect of increasing the loss for the year by \$228,000 (\$.03 per share). The change in the method of determining the cost components of concentrate inventory as described in (b) above has the effect of reducing the loss for the year by \$849,000 (\$.11 per share). The combined effect of the two changes in methods has the net effect of reducing the loss for the year by \$621,000 (\$.08 per share) from that which would have been reported had the changes not been made.

3. Amalgamation

The company is a result of the amalgamation of Cyprus Anvil Mining Corporation and Dynasty Explorations Ltd. completed April 21, 1975 and has been accounted for on the pooling of interests basis. Details of this amalgamation have been reported in previous financial statements.

4. Fixed Assets

	1976		1975	
	Accumulated			
	Cost	depreciation	Net	Net
	\$	\$	\$	\$
	(000's)	(000's)	(000's)	(000's)
Mine buildings, machinery and equipment	56,583	16,040	40,543	40,859
Construction in progress	5,200		5,200	5,629
Townsite buildings and equipment	14,422	2,646	11,776	6,557
	76,205	18,686	57,519	53,045

5. Deferred Costs

	1976	1975
	\$	\$
	(000's)	(000's)
Mineral properties, related deferred costs and preproduction costs		
—at cost	39,777	38,556
Less: Accumulated amortization	9,916	9,123
	29,861	29,433
Waste removal	(1,450)	(1,407)
	28,411	28,026

6. Capital Stock

	1976	1975
	\$	\$
	(000's)	(000's)
Authorized—		
100,000,000 common shares, without par value		
Issued and fully paid—7,615,250 shares	3,461	3,461

7. Income Taxes

(a) Income taxes charged in computing the net earnings (loss) are summarized as follows:

	1976	1975
	\$	\$
	(000's)	(000's)
Deferred—current portion	455	
—long-term portion	2,074	940
	2,529	940
Currently (recoverable) payable	(3,207)	8,260
	(678)	9,200

(b) Deferred taxes represent the difference in the total tax provision and taxes currently payable. The difference arises during years that expenses allowed as deductions for tax purposes exceed the corresponding expense deducted in computing net earnings for financial statement purposes ("timing differences"). The principal timing differences giving rise to deferred taxes are as follows:

(i) Depreciation deducted for tax purposes (capital cost allowance) exceeded book depreciation for the year.

(ii) Exploration and/or preproduction costs deducted for tax purposes exceeded book amortization and/or write-offs for the year.

(c) Income taxes are being recovered by applying the current year's loss for tax purposes to reduce the taxable income of the immediately preceding year. The effective rate of tax recovery and deferred tax savings in 1976 is 34.86%, being the effective rate of taxation in 1975.

Notes continued

- (d) (i) The company has Canadian exploration expenditures of \$1,636,000 and earned depletion of \$545,000 which are available to reduce income for tax purposes in future years.
- (ii) The company also has an unused investment tax credit of \$285,000 which may be applied against income taxes payable in future years to 1981.

8. Dividends

Dividends totalling \$.60 per share were declared and paid in the year on the 7,615,250 shares outstanding.

Notwithstanding the Anti-Inflation legislation which contains certain restrictions on dividends (note 11), the company will be allowed to maintain its established rate of dividend of \$.15 per share per quarter.

9. Statutory Information

The aggregate direct remuneration paid or payable during the year to directors and senior officers, as defined by the British Columbia Companies Act, amounted to \$301,956 (1975—\$286,472).

10. Commitments

- (a) The company has outstanding commitments of approximately \$8.68 million with respect to acquisition of fixed assets.
- (b) The company has arranged for a \$10 million U.S. bank loan, of which \$4 million U.S. was received on January 17, 1977.

11. Anti-Inflation Act

The company is subject to the terms of the Anti-Inflation Act and Regulations which became effective October 14, 1975 for restraint of profit margins, prices, dividends and compensation.

Directors and Officers

Directors

Aaro E. Aho
Consulting Geological Engineer

Paul W. Allen
*Executive Vice President
Cyprus Mines Corporation*

Morris Belkin
*President
Belkin Packing Ltd.*

John Bruk
*President and Chief
Executive Officer*

R. E. Gordon Davis
Senior Vice President

Richard Grantham
*Senior Vice President
and Treasurer,
Cyprus Mines Corporation*

Kenneth Lieber
*President
Cyprus Mines Corporation*

Donavon F. Miller
*Chairman & Chief Executive Officer
Canadian Fishing Company Ltd.*

H. Richard Whittall
*Partner
Richardson Securities of Canada*

Charles H. Wills
*Partner
Farris, Vaughan, Wills & Murphy*

Officers

Kenneth Lieber
Chairman of the Board

John Bruk
President and Chief Executive Officer

R. E. Gordon Davis
Senior Vice President

Gerald G. Kelly
Secretary and General Counsel

Paul W. Allen
Vice President

James F. Olk
Vice President and General Manager

Robert L. Cook
Vice President and Treasurer

Selwyn B. Jones
Vice President, Administration

T. S. Andrew
Comptroller

Thomas H. Biggs
Assistant Treasurer

Senior Staff

OPERATIONS
Management
Andrew H. von Kursell
Resident Manager
J. Peter Taggart
Assistant Resident Manager
David Marr
General Mine Superintendent

Administration
Joseph B. Lidster
*Manager — Personnel &
Labour Relations*
George H. Wight
Chief Accountant
Raymond Webb
Purchasing Agent
Harry Jomini
Townsite Administrator

Mine
James R. Murdoch
Mine Superintendent

Mill and Metallurgical
William W. Wallinger
Mill Superintendent
Newman G. Cornish
*Manager — Environmental Control &
Special Projects*
R. Bruce Ferguson
Chief Metallurgist

Mechanical and Electrical Maintenance
Sid D. Taylor
Electrical Superintendent

Engineering
John C. Devitt
Chief Mining Engineer
Murray O. Hampton
Senior Coal Engineer

Coal Mine
Stendell Alton
Coal Mine Superintendent

EXPLORATION
J. Glenn Simpson
Exploration Manager

Corporate Directory

Head Office:
330-355 Burrard Street
Vancouver, British Columbia

Registered Office and Records Office:
26th Floor — Toronto Dominion Bank Tower
700 West Georgia Street
Vancouver, British Columbia

Mine Office:
P.O. Box 1000
Faro, Yukon Territory

Auditors:
Coopers & Lybrand
Royal Bank Building
1055 West Georgia Street
Vancouver, British Columbia

Solicitors:
Farris, Vaughan, Wills & Murphy
Toronto Dominion Bank Tower
700 West Georgia Street
Vancouver, British Columbia

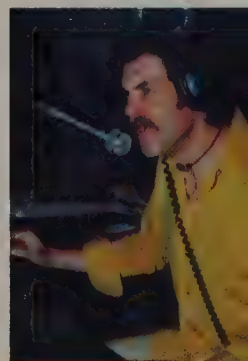
Employees Union:
United Steelworkers of America
Operating Employees
Locals 1051 & 7745
Faro and Carmacks, Yukon Territory
Office & Technical Employees
Local 8243
Faro, Yukon Territory

Registrar and Transfer Agents:
Guaranty Trust Company of Canada
at its principal offices in
Vancouver, Calgary, Regina,
Winnipeg, Toronto and Montreal

Direct enquiries to:
Selwyn B. Jones,
Vice President, Administration
330-355 Burrard Street
Vancouver, British Columbia
Telephone: (604) 687-2586

Our People, at work and at play

20



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Lithography Western Miner Press Ltd.
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Bill Roozeboom Productions Ltd.
White Pass and Yukon Route
Yukon Archives
Yukon Territorial Government*



CYPRUS ANVIL



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for the second quarter ended June 30, 1976

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Cyprus Anvil Mining Corporation

Statement of Earnings* (Unaudited)

(in thousands)

	Three months ended June 30		Six months ended June 30	
	1976	1975	1976	1975
Revenue:				
Concentrate Sales	\$20,244	\$35,748	\$35,438	\$83,737
Deduct: Ocean freight, treatment and related charges	8,728	15,335	15,418	33,757
	<u>11,516</u>	<u>20,413</u>	<u>20,020</u>	<u>49,980</u>
Operating Expenses:				
Production costs of concentrates sold	6,608	12,143	13,757	23,778
Administration and general	1,833	1,665	3,827	2,975
	<u>8,441</u>	<u>13,808</u>	<u>17,584</u>	<u>26,753</u>
Operating Income before Depreciation and Amortization	<u>3,075</u>	<u>6,605</u>	<u>2,436</u>	<u>23,227</u>
Depreciation	618	1,078	1,202	2,337
Amortization	214	452	405	1,002
	<u>832</u>	<u>1,530</u>	<u>1,607</u>	<u>3,339</u>
	<u>2,243</u>	<u>5,075</u>	<u>829</u>	<u>19,888</u>
Other Expenses (Income):				
Interest on long-term debt	132	145	262	243
Other interest expense	—	5	—	29
Interest Income	(2)	(194)	(104)	(302)
(Gain) Loss on foreign exchange	228	(247)	640	(362)
Write-down (write-up) of investments	—	19	—	(9)
	<u>358</u>	<u>(272)</u>	<u>798</u>	<u>(401)</u>
	<u>1,885</u>	<u>5,437</u>	<u>31</u>	<u>20,289</u>
Provision for Income Taxes and Yukon Royalty:				
Income Tax	610	1,162	10	6,412
Yukon Mining Royalty	—	(348)	—	552
	<u>610</u>	<u>814</u>	<u>10</u>	<u>6,964</u>
Net earnings for the Period	<u>\$ 1,275</u>	<u>\$ 4,533</u>	<u>\$ 21</u>	<u>\$13,325</u>
Earnings Per Share	\$ 0.17	\$ 0.60	—	\$ 1.75

Cyprus Anvil Mining Corporation

Statement of Source and Use of Working Capital* (Unaudited)

(in thousands)

	Three Months ended June 30		Six Months ended June 30	
	1976	1975	1976	1975
Source of Working Capital				
Current Operations	\$ 2,590	\$ 5,847	\$ 2,710	\$17,833
Use of Working Capital:				
Fixed asset additions — net	2,116	606	2,803	891
Deferred costs	201	629	439	680
Long-term debt	19	18	38	49
Investments	—	4	80	15
Reallocation deferred taxes to current	—	—	273	—
Dividends	1,144	2,285	2,286	2,285
	<u>3,480</u>	<u>3,542</u>	<u>5,919</u>	<u>3,920</u>
Increase (Decrease) in Working Capital	(890)	2,305	(3,209)	13,913
Working Capital				
Beginning of Period	19,912	18,654	22,231	7,046
Working Capital				
End of Period	<u>\$19,022</u>	<u>\$20,959</u>	<u>\$19,022</u>	<u>\$20,959</u>
Represented by:				
Current Assets	25,544	31,214	25,544	31,214
Current Liabilities	<u>6,522</u>	<u>10,255</u>	<u>6,522</u>	<u>10,255</u>
Working Capital (Deficiency)				
End of Period	<u>\$19,022</u>	<u>\$20,959</u>	<u>\$19,022</u>	<u>\$20,959</u>

*These financial statements reflect the combined operations of Cyprus Anvil Mining Corporation and Dynasty Explorations Limited. These companies were amalgamated on April 21, 1975. The amalgamation is being accounted for on the pooling of interest basis.

To our Shareholders:

Your Company's net profit for the first half of 1976 amounted to \$21,000 compared to \$13,325,000 for the first half of 1975.

With improved performance in the second quarter we have eliminated the \$1,254,000 loss incurred in the first quarter of this year. However, a more substantial improvement was not possible because of a strike which continued into the second quarter. Work resumed on May 1st following the signing of a new Agreement with the Office and Technical Local. The strike, coupled with the lower lead and silver feed grade, resulted in sharply reduced production. Also, the continued strength of the Canadian dollar is having an adverse affect on earnings. The Anti-Inflation Board has substantially reduced the agreed increase on the first year's wages and benefits of all our employees. Together with the Union Locals we have taken steps to appeal the decision of the Board.

During the first half, concentrates sold had a payable metal content of 43,026,000 pounds of lead, 59,466,000 pounds of zinc and 339,000 ounces of silver. Average prices prevailing during the period were: lead 18.8¢ per lb., zinc 35.5¢ per lb. and silver \$4.22 per ounce compared to 21.6¢, 38.8¢ and \$4.43 respectively for the first half of 1975. The price of lead has increased from 15.7¢ per lb. in December of 1975 to 21.4¢ per lb. in June of this year. Also, the price of silver has increased from \$4.10 per ounce to \$4.62 per ounce in the same period. We do not anticipate any weakening of prices during the rest of the year and are encouraged with the prospect that the metal prices may continue to strengthen.

Since the commencement of operations early in May to the end of the second quarter, mill tonnage throughput was slightly in excess of the mill design tonnage of 10,000 tons per day. All other operating results were satisfactory.

Construction work has commenced for the ancillary facilities required to serve the additional mine equipment to be placed in operation early in 1977. This is part of the major capital expenditure of \$14.8 million authorized by the Board and reported with the first quarter results. As at the end of the second quarter, the

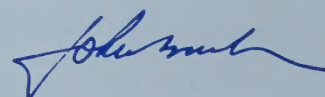
construction work was on schedule and major mining equipment deliveries are to commence during the last half of this year.

On June 25, 1976, the Directors declared a dividend of 15¢ per share payable on July 30, 1976 to shareholders of record on July 15, 1976. Your dividend cheque is enclosed with this report.

During the second quarter, work commenced on all of the principal exploration programs of your Company. Diamond drilling is underway in the Anvil District and exploration surveys and prospecting programs are being carried out on several projects. A number of joint venture agreements, covering both regional and property exploration, have been negotiated. These include three separate projects with Hudson's Bay Oil and Gas Company Limited of Calgary, involving regional exploration in the east-central Yukon and adjacent Northwest Territories, as well as in the Pelly Mountains and diamond drilling of a lead-zinc prospect south of Ross River, Yukon.

The Alberta Government has announced a policy for coal development which will increase the cost of exploration and development to meet environmental protection requirements. Also, the royalties have been raised substantially. We feel, however, that continued exploration evaluation of the Kakwa leases, now designated the Torrens Project, is justified. To date, the government authorities have not made a decision with respect to our exploration permit application.

Mr. Thomas H. Biggs was appointed Assistant Treasurer by the Board of Directors at their Quarterly Meeting and will be located at the Head Office in Vancouver.



July 28, 1976

J. Bruk, President

Summary of Operations

	Three months ended June 30		Six months ended June 30	
	1976	1975	1976	1975
Ore:				
Tons Milled — dry short tons (000's)	600	842	1,218	1,665
% Lead	2.89	3.94	2.69	3.94
% Zinc	5.52	5.44	5.38	5.16
Concentrate Produced:				
Lead Concentrate — dry short tons	18,699	36,843	35,224	74,377
% Lead	67.94	68.14	67.75	67.78
Zinc Concentrate — dry short tons	45,634	64,195	90,057	118,505
% Zinc	51.27	50.46	51.55	50.53
Bulk Concentrate — dry short tons	8,437	18,307	19,008	34,117
% Combined Lead/Zinc	50.89	43.00	49.01	44.25